



## Funding PEEHIP

### Keeping your health care affordable

By David G. Bronner

As everyone knows, the cost of health care in the United States is climbing. The Public Education Employees' Health Insurance Plan (PEEHIP) must continue to work smarter to cope with these rising costs that affect over 297,000 Alabamians covered by PEEHIP. In addition, PEEHIP must also implement the additional mandatory provisions of the Patient Protection and Affordable Care Act, commonly known as ObamaCare, by October 1, 2014. Many of the ObamaCare mandates are beneficial to PEEHIP's membership, but there is a price to be paid by someone.

At the same time, the amount of money allocated to PEEHIP by the Legislature to provide health benefits to education employees has been level – or decreased – for the past seven years. These funds are used to provide health care coverage for active members, retirees and their dependents. Currently, the funding amount is \$714 per active member, per month, which is less than the funding in 2007. Despite the level funding, the staff at PEEHIP has worked hard and successfully to keep costs down and take advantage of subsidies, rebates, and other cost-saving measures to minimize the out-of-pocket costs to members.

The funding situation has now hit a critical point: PEEHIP estimates that it will cost approximately \$120-\$170 million between 2013 and 2015 to fully implement ObamaCare. This means that PEEHIP must have more funding to meet these costs. For 2014, the State Employees' Health Insurance Plan (SEHIP) will be funded at \$825 per active member, per month, which includes dental coverage. The comparable amount for PEEHIP, excluding dental coverage, is approximately \$795 per active member, per month.

PEEHIP must seek an increase in state funding for the 2015 fiscal year to cover the additional expenses the program faces. Therefore, PEEHIP anticipates that next year, it will seek funding at the same level as SEHIP funding. Please rest assured that PEEHIP staff will continue to do everything in its power to provide the best health care at the most affordable price possible for Alabama education employees. ■

## Let Me Be Clear: Your Retirement is Safer Than Ever

By David G. Bronner

Recently, the Alabama Legislature passed a bill, and the governor signed into law Act 2013-239 that added two four-year college representatives to the TRS Board of Control and removed the ex officio position occupied by the Executive Secretary of AEA. The current Executive Secretary of AEA has argued that this change is not in the best interest of the TRS and will hurt members' retirement.

I want to assure you in the strongest possible way that nothing could be further from the truth. The removal of the current Executive Secretary of AEA was necessary to ensure that the TRS could continue to be run by a Board that has the best interests of the TRS and its members as its top priority – a Board that is free to make what are sometimes difficult decisions to keep your retirement and health care safe and not be harassed and intimidated as a result.

I have had the privilege of working with the TRS and its members for 40 years, during which time I have overseen the growth of RSA's assets from \$500 million with 25% funding to about \$30 billion and, for TRS, about 67% funding. Never in my history with the RSA have I encountered a member of the Board who so consistently failed to place the TRS members' interests first.

The current Executive Secretary of AEA overstepped his legal authority with the TRS in too many ways to enumerate, but as examples, he directed the professional investment staff what individual stocks to buy and sell; he made himself unavailable or wrongfully refused to provide daily signatures so that TRS could transact its business and not default on Wall Street trades; he tried to substitute his judgment for that of the actuaries who determine how much is needed to keep TRS solvent; and he tried to force professional staff to take actions that were not in TRS's best interests. These actions were unprofessional and unacceptable.

The removal of the Executive Secretary of AEA from the TRS Board of Control was necessary for the financial well-being of its members and retirees. Twelve of the 15 positions on the TRS Board are now filled with TRS members elected by their peers. I assure you, as a result of these changes, we are stronger and safer than ever. ■

# What's in Your Pension Plan?

## Companies Substitute Tangibles, Like Cheese, for Investments

Source: *The New York Times*

**W**hen is Cheddar more than cheese, or water more than wet?

When it's in a pension fund, of course.

As companies struggle to close the gaps between what they owe to their pension funds and what they think they can pay, they are in some cases turning to unusual assets that they hope will make up part of the difference.

For example, Dairy Crest, one of Britain's biggest producers of dairy products, said Friday that it would add £60 million, or \$92 million, worth of Cheddar cheese to its pension fund. That is about 20,000 tons of cheese, or 40 percent of its current maturing cheese inventory, the company said. (It will be constantly replaced as it ages.)

Diageo, the maker of Johnnie Walker whisky, moved two million barrels of maturing whisky at its distilleries in Scotland to its pension fund in 2010.

In the United States, the Pension Benefit Guaranty Corporation, which takes over both the assets and the liabilities of failing pension plans, encounters all kinds of peculiar assets. It has taken possession of water rights in the Mojave Desert, diamonds, oil wells, a hog-slaughtering facility, a restaurant, a hyperbaric chamber, a brewery in Philadelphia, a lien on a terminal at Kennedy International Airport and a stake in a nuclear fuel-reconditioning partnership.

Moving physical assets into pension plans allows companies to avoid having to come up with the cash they would other-

wise need to keep their plans flush.

In Dairy Crest's case, its pension deficit was £84 million as of Sept. 30, the last time the company reported the figure. The company also said that it had made a one-time immediate payment to the pension fund of £40 million, in addition to an annual payment of £20 million.

Hard-to-value assets could hold a certain appeal: a plan actuary could assert that diamonds, for example, will pay higher returns than bonds.

"The higher the assumed rate of return, the lower the requirement on the employer to fund the plan in full," said Andrew Frank Thompson, a finance professor at the University of Northern Iowa College of Business. "If I'm assuming a 20 percent annual return, I don't have to put as much in. So employers like the idea of investing in exotic types of things."

That could include trees. United States Steel, based in Pittsburgh, transferred about 170,000 acres of Alabama timberland to its workers' pension fund several years ago, to help plug a shortfall. The timberland sprawls over five counties near Birmingham and was estimated to be worth about \$100 million at the time of the transfer. U.S. Steel acquired it in 1907, when it bought the Tennessee Coal, Iron and Railroad Company.

Large, in-kind pension contributions by companies must be vetted and approved by the Labor Department. It is not known whether the department would approve big batches of cheese, because no one in this country has tried it.

States are not bound by those rules, and Alabama has stocked its pension system with 11 golf courses, all within the state, along with an array of hotels and spas. The investments have sometimes drawn criticism for not returning as much as publicly traded investments, but the system's chief executive, David Bronner, says building resorts and golf courses also improves the standard of living in Alabama.

Company pension plans in the United States are guaranteed by the federal government, and when a company goes bankrupt, the pension guaranty uses all the pension assets it acquires from bankrupt companies to help cover the cost of the benefits it pays retirees. Its officials obviously find it much easier to work with publicly traded stocks and bonds than with, say, water rights in a desert.

"The main issue remains as to how funds can be deployed to this activity when the P.B.G.C. is running a deficit of \$23 billion," said Mr. Thompson, who has studied the pension insurance program's finances.

Mr. Thompson said assets like breweries and diamonds were ill-suited to paying pensions because they were illiquid and hard to set a value to.

"From an actuarial standpoint, those assets would not be suitable," he said. "When you're reserving, you want assets that are marketable."

(EDITOR'S NOTE: The total RSA investment in the hotels and golf courses is 1.97% of assets.) ■



## Investment Returns

By Marc Green

6 Months Ending March 31, 2013	Domestic Stocks	International Stocks	Fixed Income	Total Plan Return
TRS	11.68%	11.26%	1.74%	7.32%
ERS	11.67%	11.19%	1.73%	7.08%
JRF	10.93%	11.22%	1.10%	7.70%
Total Plan Returns				
All Periods Ending March 31, 2013	1 Year	3 Year	5 Year	10 Year
TRS	11.12%	9.18%	3.16%	7.00%
ERS	11.00%	9.14%	2.70%	6.73%
JRF	10.75%	9.73%	5.60%	7.90%

The 25-year return for TRS and ERS are only available for periods ending on our fiscal year. TRS 25-year return is 8.24%. ERS 25-year return is 8.12%.

# Banff Visit Inspired Alabama Golf Trail

By Pat Brennan, For Postmedia News (Canada)

Alabama businessman David Bronner was quite impressed with his stay at the Banff Springs Hotel in Alberta.

That's why he tried to duplicate the historic hotel as his crowning glory when building the world's biggest golf course. Actually, it's a golf trail – The Robert Trent Jones Golf Trail.

Bronner has created a collection of 26 different golf courses strung out at 11 locations on a line through the state of Alabama.

The Ross Bridge Golf Resort and Spa, just outside Birmingham, is the newest and claims to be the finest of the public courses making up this golf trail. By itself, Ross Bridge is one of the longest golf courses in the world at more than 8,100 yards.

It was amidst the heavily-treed rolling hills of Shannon Valley that Bronner chose to erect his salute to the Banff Springs Hotel. His hotel has spires protruding above the tree tops, much like the Banff Springs.

But Bronner acknowledges it's impossible to duplicate the grandeur, history, and spectacular scenery of the 768-room Banff Springs Hotel, which opened in 1911. "He just wanted to portray the same flavour and image of the Banff Springs," said Bill Lang, media relations officer for the golf trail.

In keeping with the Scottish Baronial Castle flavour of the Banff Springs Hotel, Bronner has a lone bagpiper play the sun down each night in the central courtyard at The Ross Bridge.

Bronner's hotel doesn't offer some of the world's finest downhill skiing just outside its door, but it does have year-round golf. Lang said the RTJ Trail sees a lot of

Canadian golfers each winter.

Bronner was the assistant dean of law at the University of Alabama when he was asked to head up the state's employee pension fund in 1973. The fund had \$500 million in cash and was owed \$1.5 billion by the state.

Those figures scared him and he looked for ways to build up the reserve and at the same time help out Alabama's economy. Bronner likes golf. He reasoned that with Alabama's temperate weather, rolling green forests, ocean shore line, excellent highways and down home hospitality, his state should be a golf Mecca.



He decided to create upscale golf courses to attract tourists to Alabama and persuaded renowned golf course architect Robert Trent Jones to come out of retirement and design a series of golf courses to run the full length of Alabama. Ironically, Jones designed the world-famous Banff Springs Golf Course in 1928 when in partnership with Toronto's famous golf course designer Stanley Thompson.

Jones died in 2000 at age 94 and his protégé Rogert Rulewich designed the Ross Bridge PGA Championship course. The hotel, a Marriott Renaissance Resort, was designed by Goodwyn, Mills & Cawood, one of the largest architectural/engineering firms in the U.S. southeast.

Most of its 259 rooms have balconies looking out on the golf course. The Ross Bridge Hotel has also developed a reputation as one of America's finest spa resorts. Plus, it is the home base for the Porsche Sport Driving School at nearby Barber Motorsport Park, where professional race drivers will teach you performance driving starting at \$1,800/day.

Golf is somewhat less expensive. During January and February greens fees are \$81 U.S./round and jump to \$127 on March 1. A golf cart adds another \$17 for 18 holes. At other courses on the RTJ Trail greens fees range from \$45 to \$145. Spring and fall are the most popular times on the RTJ courses. Summer days in Alabama often hover around 38C.

Ross Bridge derives its name from a nearby attractive stone bridge built in 1858 by the Confederate Army to move its troop trains over a farm and a creek owned by James Taylor Ross. The bridge is a historical site today.

The Ross Bridge Resort is about 32 kilometres south of Birmingham International Airport. USAir has a dozen flights a day out of Toronto to Birmingham, several of them 4 hours and 20 minutes in duration via Charlotte, North Carolina for \$605 return. It's 1,573 kilometres, about 17 hours, by car.

The Robert Trent Jones Golf Trail has become one of Alabama's most popular tourist attractions and Bronner, 67, has grown the state employees' pension fund to more than \$32 billion.

Lang says most of the golf courses along the RTJ Trail have resort hotels attached and each has a variety of package deals available.

More details are available at [www.rtgolf.com](http://www.rtgolf.com). ■

## Special Election for TRS Board

Higher Education Position No. 1

Act 2013-239 added two new positions to the Teachers' Retirement System (TRS) Board of Control. They are the Higher Education Position No. 1 and Higher Education Position No. 2 for active, contributing members of public four-year institutions of higher education. Members of the TRS Board also serve on the PEEHIP Board.

The Higher Education Position No. 1 election begins on June 3, 2013, with the nomination process. Petitions for candidate's names to be placed on the ballot are due to the TRS by 4:00 p.m. on June 28, 2013. The Higher Education Position No. 2 election will take place in 2014. Information on how to become a candidate has been provided to each four-year institu-

tion Human Resource Department and is also located on our website at [www.rsa-al.gov](http://www.rsa-al.gov).

This new law stipulates that the elected members to the TRS Board be elected only by members from the same category of the retirement system. Thus, only active higher education employees can vote for the higher education positions, only active K-12 teachers can vote for the active teacher positions, and only retirees can vote for retirees, etc.

To be eligible to vote for the Higher Education Position No. 1, you must be an active member currently contributing to the TRS and classified as a higher education employee of a public four-year institution of higher education.

The law also mandated that the election be conducted by a third party entity not affiliated with the TRS. The current entity that conducts board elections is VR Election Services of Carrollton, Texas. Members will receive ballots around July 15, 2013. To be counted, ballots must be returned to VR Election Services by 4:00 p.m., August 9, 2013.

Members will be able to vote by returning the ballot in a prepaid postage envelope or by voting online or telephone. Instructions will be included with the ballot. If you have any questions, please contact the Election Coordinator at 877.517.0020. ■



# Start Planning Your Summer Getaway at RSA's Outstanding Hotels, Spas, and RTJ Golf

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### ENJOY YOUR SUMMER A Special Deal FOR RSA MEMBERS

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• August 1-31

#### The Renaissance Riverview Plaza – Mobile – \$99

• June 1-10, 18, 22, 30 • July 1-5, 19-21, 24-25, 31  
• August 1-31

#### Marriott Grand – \$109 plus a 15% resort fee

• June 2-4, 12-13, 19-20, 23, 30  
• July 1-2, 10-11 • August 11-14, 18-22, 25

#### Marriott Grand – RSA Golf Package – \$179 NEW! Enter Promotional code – R2A

Includes: Deluxe Room, One Round of Golf for Two People.  
Call for Tee Times after booking package

• June 2-4, 12-13, 19-20, 23, 30 • July 1-2, 10-11  
• August 11-14, 18-22, 25

#### Marriott Shoals – Florence – \$99

• June 2, 9-10, 16-17, 23-24  
• July 1-3, 7-8, 21, 28-29 • August 4-5, 11-12, 18, 26

#### Renaissance Ross Bridge – Hoover – \$109

• June 2, 9-11, 16-18, 23-27, 30  
• July 1, 3-4, 7-11, 14-15, 17-18, 21, 25, 27-28, 31  
• August 4-8, 11-15, 18, 22, 25-29

#### Opelika Marriott – \$99

• June 2, 5-6, 9-19, 23, 28-30 • July 1-4, 7-17, 21-31  
• August 1, 4-6, 8-15, 18-22, 25-28

#### Prattville Marriott – \$89

• June 1-3, 14-17, 20-23, 27-30  
• July 1-18, 21-25, 28-29, 31 • August 1, 4-28, 31

#### Renaissance Montgomery – \$109

• June 1, 21, 28-30 • July 1-7, 20-22  
• August 1-15, 18, 21-25, 27-31

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Rates available the 1st of the month  
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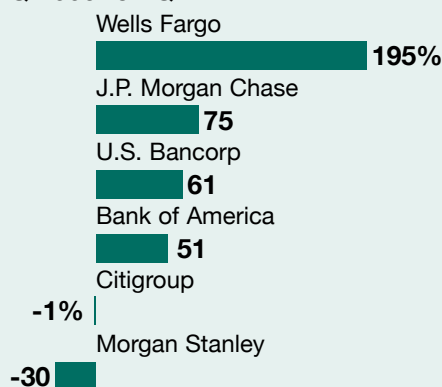


## Three New ERS Board Members

Governor Robert Bentley, Chairman of the ERS Board, swore in three new members at the May Board meeting. Congratulations to the new ERS Board members: Christopher Blankenship, Wendy Hester, and Curtis Stewart. ■

## Bigger and Bigger

Change in total asset size,  
4Q 2006 to 4Q '12



Source: SNL Financial  
The Wall Street Journal



### CEO

David G. Bronner

### Deputy Director

Donald L. Yancey

### Executives

### Communications

Michael E. Pegues

### Chief Accountant & Financial Officer

Diane E. Scott

### Employees' and Judicial Retirement

William F. Kelley, Jr.

### Field Services

Robert J. Crowe

### Information Technology Services

Michael T. Baker

### Investments

R. Marc Green

### General Counsel

Leura G. Canary

### Legislative Counsel

Lindy J. Beale

### Member Services

Penny K. Wilson

### PEEHIP

Donna M. Joyner

### Teachers' Retirement

Christopher P. Townes

The Retirement Systems of Alabama

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[www.rsa-al.gov](http://www.rsa-al.gov)